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AGENDA ITEM #1549

WATER/ABJ/HJL:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION  
Water Branch

RESOLUTION NO. W-4371  
January 16, 2003

R E S O L U T I O N

**(RES. W-4371), SOUTHERN CALIFORNIA WATER COMPANY (SCWC),  
METROPOLITAN DISTRICT. ORDER AUTHORIZING AN INCREASE IN  
RATES PRODUCING AN INCREASE IN ANNUAL REVENUE OF  
\$2,711,669 OR 3.6% TO OFFSET INFRASTRUCTURE REPLACEMENT  
COSTS AND ESTABLISH PRICE INDEX INCREASES.**

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**SUMMARY**

By Advice Letter (AL) 1112-W received October 28, 2002, SCWC requests the authority to increase rates in its Metropolitan district by \$2,711,669 or 3.6% to offset an increase in rate base due to its Infrastructure Replacement Program (IRP) and offset increased costs by using a price index. This resolution explains and approves those requests.

**BACKGROUND**

In its last general rate case for its Metropolitan district, [(Decision (D.) 98-12-070 in Application (A.) 98-03-029 et. al.)] SCWC and staff presented a Stipulation (Appendix D to the Decision) that was adopted by the Commission in Ordering Paragraph 2. Three sections of that stipulation relate to this filing.

“17.04 The Costs of Replacing Infrastructure - - The Parties agree to a modified Infrastructure Replacement Program. The Parties agree that SCWC should have the option of extending the Metropolitan’s rates through the year 2003. The costs of replacing infrastructure could be recovered through Advice Letter in 2001, 2002, and 2003. An increase in authorized expenses during the extended period would be allowed based on the most current Price Index (as defined in 17.06). The Parties agree to a band on earnings of 200 basis points either way. Advice Letters will be subject to the revised pro-forma test on earnings, which will be determined at a later date.

“17.05 Established Factors - - Established Factors will be comprised of the following factors, which are published on a monthly basis:

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1) The Compensation Per Hour Index, and, 2) the Non-Labor Index (both published in a memo from the ORA Monopoly Regulation Branch to the Water Division of the Commission.

“17.06 Price Index – Infrastructure Replacement - - The Price Index will be comprised of the following three factors, which are published on a monthly basis: 1) the Compensation Per Hour Index, 2) the Non-Labor Index both published in a memo from the ORA Monopoly Regulation Branch to the Water Division of the Commission, 3) the Construction Cost Index as printed in Engineering & News Reports. Each factor is weighted one-third. The Price Index will determine the maximum change from the prior years rates.”

In its filing, SCWC calculates the price index for 2002 as 2.1% using the ORA Compensation Per Hour and Non-Labor Indices as of August, 2002 and the Construction Cost Index as of October, 2002. It applies this inflator to operations and maintenance expenses (excluding offsettable expenses) but only for those expenses that might be expected to increase due to cost pressures. For example, SCWC does not increase postage. The resulting index-driven increase in expenses is \$917,300.

It next lists the infra-structure projects that it has completed in calendar year 2002. The projects include two new wells, one called Roseton and one called 129<sup>th</sup> Street, for \$2,835,675 and \$1,865,373, respectively, and shows a detailed list of main replacement projects, with the sections and streets identified and the length of the replacement specified. In total, SCWC replaced 37,000 feet of main at a cost of \$6,060,574. The total IRP costs, are \$10,761,622. All of the IRP projects have been completed and are in service and used and useful to its customers. SCWC determined rate base impact of these additions by calculating a dollar return on rate base using the latest rate of return authorized for SCWC in D.00-12-063. The annual revenue requirement for the IRP based on a rate of return of 8.94% is \$1,794,369.

The request totals \$2,711,669, which includes \$1,794,369 for the IRP and \$917,300 for price index increase.

### **DISCUSSION**

Under the terms of the Stipulation, SCWC was authorized to recover the costs of replacing infrastructure through advice letters in 2001, 2002, and 2003. In addition, the Stipulation authorized an inflationary increase in authorized expenses based on a Price Index comprised of three factors specified in the Stipulation. The Commission in D.98-12-070 approved the Stipulation.

On November 13, 2001, in conformance with D.98-12-070, SCWC filed Advice Letter 1105-W (AL-1105) requesting an IRP rate increase of \$3,127,962 for its Metro CSA. The requested increase was intended to recover the revenue requirement for the IRP

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capital projects to be undertaken in 2002 and an inflationary increase in authorized expenses.

The Commission's Water Division rejected AL-1105 in March 2002, indicating a lack of authority for granting SCWC's request. Specifically, the Water Division stated that

"No Ordering Paragraph of D.98-12-070 expressly authorizes rate recovery through an offset rate increase for infrastructure replacement."

The Division further indicated that the settlement sections conflicted with the ordering paragraph of the decision. In response to the Water Division's rejection of AL-1105, SCWC filed a Petition to Modify D.98-12-070 on April 16, 2002. In its Petition, SCWC requested that the Commission modify the Ordering Paragraphs in D.98-12-070 inserting language that expressly authorizes SCWC to file an advice letter for IRP and inflationary rate increases in 2002 and 2003. The Commission granted SCWC's Petition in

D.02-10-044. Ordering Paragraph 2 of D.02-10-044 states in part:

"On or after November 1, 2001, SCWC is authorized to file an advice letter, with appropriate workpapers, requesting a rate increase for the year 2002 in its Metropolitan CSA to recover (a) the revenue requirement associated with the cost of replacing two wells and 36,000 linear feet of mains (per Paragraph 17.04 of the Stipulation regarding the Infrastructure Replacement Program), and (b) any increases in authorized expenses based on the most current price index as defined in Paragraphs 17.04 and 17.06 of the Stipulation."

In Section 17.04 of the stipulation, the parties agreed to a band of earnings of 200 basis points either way from the adopted rate of return when performing the earnings test as part of the advice letter filings. The weather normalized (pro-forma) earnings test submitted by SCWC showed a pro-forma rate of return, as of September 30, 2002, of 8.48%. This falls below the rate of return of 10.94%, which is the upper limit based on the adopted rate of return of 8.94%. In view of this, SCWC should be authorized the entire offset increase.

SCWC has used the Commission's standard rate design for Class A water utilities. Accordingly, 50% of the costs will be recovered through the service charge components of the rates and the remainder through the quantity rate component. We find SCWC's methodology appropriate. The above increase will be applied to Schedule No. ME-1, General Metered Service.

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**NOTICE AND PROTESTS**

The original advice letter was sent to nearby municipalities and water utilities. Notice of the increase was published as a legal notice in a newspaper of general circulation on November 7, 2002. No protests have been received.

**FINDINGS AND CONCLUSIONS**

1. Decision 98-12-070 approved a stipulation in the general rate increase request for Southern California Water Company, Metropolitan District.
2. The stipulation allowed for rate changes in the year after the attrition year (year four) and the year after that (year five) to support additions to rate base in those years.
3. SCWC filed a Petition to Modify Decision 98-12-070 on April 16, 2002 requesting the Commission to insert language that expressly authorizes SCWC to file an advice letter for IRP and inflationary rate increases in 2002 and 2003.
4. The Commission granted SCWC's Petition in its Decision 02-10-044, stating in part, it was the Commission's intent to allow SCWC to file advice letter for the years 2002 and 2003 in the manner set forth in Section 17.04 and 17.06 of the Stipulation in Decision 98-12-070.

**THEREFORE IT IS ORDERED THAT:**

1. Southern California Water Company is authorized to make effective revised Schedule No. ME-1, General Metered Service, attached to Advice Letter No. 1112-W, and to cancel its presently effective rate schedule. The effective date of the revised rate schedule shall be five days after the date of this resolution.
2. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on January 16, 2003; the following Commissioners voting favorably thereon:

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WESLEY M. FRANKLIN  
Executive Director